

1 History" there, sir?

2 A Yes.

3 Q I'd like you to look at the typing that fills this
4 in this section and tell me whether or not that's accurate?

5 A You mean 07-08 ordered?

6 Q Uh-huh.

7 A I don't know what it means.

8 Q Okay. And then under remarks it says, "see attached
9 remarks overflow," do you know if that's accurate?

10 A I don't know. I mean, is there an attached
11 overflow?

12 Q I don't know what you know about the application,
13 sir.

14 A No. I don't know anything about it so I
15 didn't have anything to do with it.

16 Q Before today have you ever looked at any of these
17 insurance application documents?

18 A No.

19 Q I'd like to talk about your relationship with your
20 accountants. When I say you, I'm talking about The Hammocks.
21 What accounting firm do you currently use?

22 A It's kind of -- last year we were trying to get a
23 loan to get things refinanced and the bank required us to do a
24 forensic audit on the books since we bought the property. So we
25 hired a company that they recommended to come in and do that and

1 then since they had all the material available at that time they
2 did our taxes for that year. This was for '07.

3 Q What company is that?

4 A I can't remember their names.

5 Q Do you want to look at the documents you've
6 produced?

7 A Yeah. It's there.

8 Q They're in those boxes.

9 A Huh?

10 Q They're in those boxes.

11 A I know I've given it to you but I don't remember
12 their name.

13 Q Do you remember the accountant's name?

14 A One of them's name was David.

15 MR. PAYNE: It says David Worley.

16 THE WITNESS: Worley. Yeah.

17 A And then there's a gal in his office that actually
18 did the work. I've met with her several times when she was
19 doing that but I don't remember her name at this point.

20 Q When you say they did your tax, are you talking
21 about 2008 taxes?

22 A 2007 taxes.

23 Q That you filed in---

24 A We got an extension for this year for last year and
25 they're going to do it for this year if it's approved by the

1 bankruptcy court.

2 Q For fiscal year 2007 and the tax returns to be filed
3 in 2008, do you understand what I mean by that?

4 A I do.

5 Q Is that the year that David Worley did the tax
6 returns?

7 A 2007.

8 Q Yeah. Were they filed in 2008?

9 A Yes.

10 Q Is he preparing the 2008 returns?

11 A If it's approved by the bankruptcy court.

12 Q But he's prepared them already, right?

13 A Not that I know of.

14 Q The bankruptcy court has to approve him preparing
15 them?

16 A The last I heard it hadn't approved it.

17 Q Okay. Does he have all the work records that he'll
18 need to prepare the tax returns?

19 A As far as I know they've been provided.

20 Q Who was the accountant before David Worley?

21 A Caldwell Baker Law Firm in Chattanooga has done our
22 taxes the previous two years or previous years for The Hammocks
23 for a number of years.

24 Q Is that the law firm that Virginia Love works at?

25 A Right.

1 Q And the law firms handle your tax returns?

2 A They have an accountant in the tax division.

3 Q Virginia Love is your sister, right?

4 A Right.

5 Q And she has an ownership interest in The Hammocks?

6 A She's the majority owner.

7 Q What's her majority?

8 A I don't know. I provided you with percentages, it's
9 over 50 percent.

10 Q I know you've provided me with the documents, I'd
11 like you to look at the documents and tell me what her percent
12 ownership is?

13 A I don't know.

14 MR. PAYNE: Do you want to move this map?

15 MR. NELSON: Yeah, let's do that.

16 THE WITNESS: It would be based on the questions.

17 It could be under 33. I don't know where that would be. Or 34
18 it could be there too.

19 MR. PAYNE: These are just Bates stamped. Let's see
20 here we go. Lake Norman.

21 MR. NELSON: While you guys are looking for that,
22 I'm going to use the men's room.

23 (Discussion off the record.)

24 Q Dr. Gray, we've all been rooting around trying to
25 find some documents so the documents you and Attorney Payne have

1 directed me to is 1021 and 1022 of The Hammocks production. Can
2 you tell me what these documents are?

3 A This was the last amendment of the ownership of The
4 Hammocks.

5 MR. PAYNE: Can we go off the record a second?

6 MR. NELSON: Sure.

7 (Discussion off the record.)

8 Q So you said this was the last version 1021, correct?

9 A Right.

10 Q Of The Hammocks operating agreement?

11 A Right.

12 Q And this says fifth so I'm assuming that there's
13 been five prior?

14 A Right. Yes.

15 Q Okay. Dr. Gray, you gotta let me finish my
16 question, okay. I'm not trying to fuss with you. Humans do
17 this all the time when they communicate but it makes the record
18 real hard, okay. So there were four amendments prior to this
19 amendment and the original, correct?

20 A Correct.

21 Q Did you produce the other five versions of the
22 operating agreement?

23 A Here's the first one---

24 MR. NELSON: Let's go off the record.

25 THE WITNESS: The second one.

1 MR. NELSON: Okay. Let's go off the record.

2 (Discussion off the record.)

3 Q Bates stamp numbers just give me the first and last
4 of those.

5 MR. PAYNE: The first one starts at 1008.

6 A Then the last one is the fifth one which is 1029.

7 MR. PAYNE: It's 1023, Dr. Gray.

8 THE WITNESS: I mean it's 1023. Yes.

9 Q So, Dr. Gray, feel free to look at those documents
10 if you want. I'd like you to tell me in your own words how the
11 ownership of The Hammocks started when The Hammocks was first
12 created to the point where it is capsulated in the fifth amended
13 version?

14 A The Hammocks started with a partnership out of
15 Charleston, South Carolina and we sold a piece of property down
16 there.

17 Q What was the name of that partnership?

18 A The Hammocks.

19 MR. PAYNE: I think when he's saying partnership he
20 means LLC. And I'm just saying this not to stick my nose in but
21 to clarify.

22 Q I understand.

23 A And when that property was sold it was traded into
24 the Richmond Hill Inn. Our partner who is a developer wanted to
25 develop some land for some other projects and we looked

1 throughout Charleston and the Charlotte area and the coastal
2 South Carolina to see what we could find and never could find
3 anything and then we found the inn with 40 acres that are
4 developable. And so he wanted us to and I wanted to buy it
5 thinking it was a very good project.

6 Q And I want to go back and clarify a few things. Can
7 you just stay with me for a minute, Dr. Gray. So there was a
8 piece of property in Charleston, South Carolina that you sold?

9 A Right.

10 Q And that property was owned by The Hammocks, LLC?

11 A Right.

12 Q Who were the members at that time of The Hammocks,
13 LLC?

14 A Initially the two guys that sued each other and then
15 ended up dropping out were members.

16 MR. PAYNE: What's their names?

17 THE WITNESS: Gene Vaughn and Roger Frost.

18 Q Let me ask you some questions along the way. Let's
19 go back to square one. When The Hammocks, LLC was first
20 created, who were the original members?

21 A Roger Frost, Gene Vaughn, Virginia Love, myself,
22 Mary Catherine Love, Mary Horton, and Skip Frieberg.

23 Q When that organization was first created, was it
24 around the idea of owning some property?

25 A No. It was around the idea of us starting and

1 developing another retirement community like we had in
2 Mooresville.

3 Q So it was just an idea of let's start this LLC and
4 we'll buy some land to develop for a retirement community?

5 A Uh-huh.

6 Q Is that a yes?

7 A Yes.

8 Q And the first version of that document is Bates
9 stamped what?

10 A Based what?

11 Q The first version of that document is Bates stamped
12 what?

13 MR. PAYNE: Are you talking about the first
14 amendment?

15 MR. NELSON: No, the first original.
16 Because you got the first amendment as 108.

17 MR. PAYNE: Right. 1008.

18 A The operating agreement is 974 in the front part of
19 all this.

20 Q Hold on for a second, Dr. Gray, let me catch up with
21 you.

22 A 937 is where you need to start.

23 Q Where do the names appear? Is it Exhibit B to the
24 operating agreement 972?

25 A That was, yeah, one of them.

1 Q Okay. When you say "one of them," is there another
2 one?

3 A No, I guess that's it.

4 Q Now you referred to somebody here as the developer,
5 who would that have been?

6 A On that particular project Roger Frost and James
7 Sloggart were going to do the development.

8 Q What was the project called?

9 A The Hammocks.

10 Q And that was located where?

11 A In Mount Pleasant, Charleston, South Carolina.
12 Charleston County.

13 Q Did that project ever come to fruition?

14 A Nope. I bought the land and had it rezoned and
15 planned and got all the approvals and everything for it and
16 Roger Frost had dropped out by then and Jim Sloggart never
17 developed it so I sold it.

18 Q Who bought the land?

19 A I did.

20 MR. PAYNE: Are you asking who bought it at the sale
21 after The Hammocks acquired it?

22 MR. NELSON: I'll clarify the question. Thank you.

23 Q When the land was first purchased which person or
24 which group purchased it?

25 A The Hammocks purchased it but I was the one who was

1 buying it.

2 Q But The Hammocks took ownership of that land?

3 A Right.

4 Q Was it raw?

5 A Raw land in a sub development.

6 Q How many acres was that?

7 A 40 acres.

8 Q In Charleston?

9 A Mount Pleasant.

10 Q But is that Charleston?

11 A Charleston County.

12 Q The land was rezoned?

13 A Yes.

14 Q How come it was never developed?

15 A Cause my partner didn't develop it.

16 Q When you say "my partner," which are you referring

17 to?

18 A Jim Sloggart.

19 Q Does The Hammocks still own that land?

20 A No, we sold it, traded it into Richmond Hill.

21 Q Why did Sloggart never develop it?

22 A You'd have to ask him. I do not know.

23 Q You have no idea?

24 A Just like he didn't develop the one up here. We

25 were the investors basically and he was the developer.

1 Q When was the land first purchased by The Hammocks?
2 A In Mount Pleasant?
3 Q Yeah.
4 A 2002 or '03, I don't remember which.
5 Q When was it sold?
6 A 2005.
7 Q How much did you sell the land for?
8 A I don't remember. We cleared 2 million plus.
9 Q And when you sold the land it wasn't developed in
10 any fashion?
11 A No.
12 Q Did the assets from the sale remain with The
13 Hammocks?
14 A Yes.
15 Q And you said that Frost dropped out?
16 A Except for several people we paid their share off
17 that had minor parts of it and they didn't want to proceed.
18 Q Was there a profit made on that sale?
19 A Close to \$2 million.
20 Q Well, if you sold it for 2 million plus---
21 A The profit was that---
22 Q Netted 2 million. How much was the purchase price?
23 A I don't really remember. I know I lent the money to
24 the thing and then got the money back afterwards.
25 Q So it was a \$2 million profit from the sale which

1 had to be shared by all the members of the LLC according to the
2 percentages of ownership?

3 A Right.

4 Q So the people that remained inside The Hammocks --
5 let me finish my question -- left their assets inside The
6 Hammocks?

7 A Yes.

8 Q So Frost drops out?

9 A Yeah.

10 Q Frieberg drops out?

11 A Right.

12 Q Mary Horton remain in?

13 A Dropped out.

14 Q Mary Mullins is your sister, right?

15 A Stayed in. Yeah.

16 Q Lake Norman Pavilion stay in?

17 A Stayed in.

18 Q Virginia Love stayed in?

19 A Right.

20 Q Jim Sloggart individually stayed in?

21 A Right.

22 Q Please go to page 972 and then 973. Sloggart is
23 listed there twice, do you know why?

24 A No, I don't.

25 Q Who is the law firm that drew up this agreement?

1 A I don't remember.

2 Q So then after the Mount Pleasant project didn't pan
3 out is that when you turned your sights on the Richmond Hill Inn
4 property?

5 A Right. After we sold that.

6 Q When you use "that," that's where it gets confusing.

7 A The project in Mount Pleasant then we looked for
8 another property because Jim Sloggart said he would develop
9 another project and really wanted to do that instead of
10 splitting the partnership up.

11 Q Okay.

12 A And that's when after looking for a good while we
13 found Richmond Hill Inn and the adjacent land and we decided to
14 buy that.

15 MR. PAYNE: Can we go off record a second here?

16 MR. NELSON: Yeah.

17 (Discussion off the record.)

18 Q So according to the original operating agreement the
19 attorney who drew up the operating agreement was Timothy
20 Gavigan, is that correct?

21 A That is correct.

22 Q Why did the operating agreement become amended the
23 very first time, so we're looking at this very first amendment?

24 A Because when we bought Richmond Hill property, Jim
25 Sloggart wanted to trade some money into it and so he wanted a

1 bigger interest so that was the initial -- the first amendment
2 was after the close of the other property before we bought the
3 inn. We only had one other property and that was Mount Pleasant
4 property. This was the amendment after we sold that.

5 Q Okay. So can I take from your answer, Dr. Gray,
6 that the first amendment occurs because you sold the Mount
7 Pleasant property, the members have changed along the lines
8 we've already discussed and then Jim Sloggart wants to put a
9 bigger financial stake into this?

10 A That's correct.

11 Q And is this the agreement that was in operation at
12 the time that the Richmond Hill Inn was purchased from the
13 Michels?

14 A The second one. I believe it was the second one.

15 MR. PAYNE: Don't guess. I don't want you guessing,
16 look at the dates.

17 THE WITNESS: This was the one after the sale.

18 Q When you use "this is," that's not going to work?

19 A Okay. You ask the questions.

20 Q I know. So what operating agreement was in
21 existence at the time Richmond Hill Inn was purchased?

22 A The second.

23 MR. PAYNE: What was the purchase date?

24 THE WITNESS: The 15th.

25 MR. PAYNE: Okay. Then the third is in effect.

1 Hang on.

2 Q Do you want to change your answer?

3 A Yes, please. The third was in effect. They're all
4 signed at the same time. I believe the third one was in effect.

5 Q What do you mean they were all signed at the same
6 time?

7 A They're all basically -- they had been prepared
8 previously and we couldn't get everybody together to sign them
9 and so finally I got them all together and people signed them at
10 different times but finally they were all finished basically at
11 the same time.

12 Q Well, actually the third and the second seem to
13 differ in the third talks about added capital of \$56,000.

14 A Right.

15 MR. PAYNE: I think what he's saying is the
16 effective dates of each of those are within 4 to 5 days of one
17 another.

18 Q So I want you to tell me about why there was a
19 second agreement and why there was a third agreement. We
20 already talked about the second was created because we just went
21 through three reasons. Why the third agreement?

22 A The third agreement is what it was at the time of
23 getting ready to close on Richmond Hill Inn.

24 Q But why did the agreement change from the second to
25 the third?

1 A Because Mr. Sloggart wanted to put some more money
2 into it.

3 Q Is that the only basis for the change?

4 A As far as I know, yeah.

5 Q Why was the fourth amendment to the operating
6 agreement created?

7 A Because Mr. Sloggart wouldn't put the money in that
8 we were having to put into the inn and so the other partners
9 were contributing money and so for tax purposes we did an
10 amendment to reflect the ownership.

11 Q So on the fourth operating amendment it refers to
12 added capital of \$10,000 by Sloggart?

13 A Yeah.

14 Q That means he contributed an additional 10,000?

15 A Right.

16 Q And then it refers to on the next page \$2,832,883 by
17 Lake Norman Pavilion was that the contribution?

18 A Right from Lake Norman. Another contribution from
19 Lake Norman Pavilion.

20 Q So the 10,000 plus the 2.8 are contributions made to
21 The Hammocks in order to support the Richmond Hill Inn?

22 A Two million of it went to the Michels to pay off
23 principle and then the other 800,000 went to support the inn.

24 Q Was that just operating revenues then?

25 A To cover operating revenues.

1 Q Was it \$2 million even that went to the Michels?

2 A Basically, yes. A 100,000 had gone to them earlier
3 and then a million nine but it was all lumped in together so.

4 Q So can I take from that answer, sir, that if you add
5 the 2.832 Lake Norman contribution with the \$10,000 that
6 Sloggart put in an additional and then you subtract out 1.9 that
7 went to the Michels the remainder of that went to the operating
8 capital for The Hammocks to run the Richmond Hill Inn?

9 A Yes.

10 Q Why was the fifth amendment created to the operating
11 agreement?

12 A Because Mr. Sloggart still wasn't willing to put his
13 share of the contributions in.

14 Q What do you mean by contributions?

15 A Well, as we needed money to support the inn we
16 contributed money to it and so it was left for my sister, Lake
17 Norman Pavilion or for me to come up with the money to put in.

18 Q Looks like you contributed 75,000 at that time?

19 A Yeah.

20 Q And that Sloggart contributed 50,000?

21 A Yeah. Prior to that, yeah.

22 Q What do you mean prior to that?

23 A Prior to this amendment he had contributed that.

24 Q So somewhere between the fourth and fifth amendment
25 he contributed an additional \$50,000?

1 A Yes.

2 Q And then Virginia Love contributed \$100,000?

3 A Right.

4 Q In addition to these documents that talk about the
5 operating agreements, have there been any other documents
6 created officially by The Hammocks, LLC or any of the members or
7 people that service The Hammocks that talk about these
8 transactions?

9 A Not that I know of.

10 Q Any minutes of the meetings?

11 A We don't do that.

12 Q Do you meet regularly as an organization?

13 A No.

14 Q When is the last time that all current members of
15 The Hammocks met to talk about business either by telephone or
16 in person?

17 A We had a phone conversation, a conference call with
18 David Gray back in September of '08, I believe it was.

19 Q Okay. Was anybody with David Gray when that call
20 was made?

21 A Myself.

22 Q You were in his office?

23 A Right.

24 Q And I'm not asking you to tell me what was discussed
25 there except for the purpose of the meeting was to talk about

1 bankruptcy issues?

2 A Bankruptcy and how to go about doing it and what we
3 needed to do.

4 Q When you say "needed to do," we're talking about
5 needed to do in order to go into bankruptcy?

6 A Right.

7 Q Was there a vote taken on the phone call?

8 A No.

9 Q Did the organization The Hammocks ever have any
10 formal vote that---

11 A No.

12 Q Hold on, Dr. Gray.

13 MR. PAYNE: Let him finish.

14 Q Did The Hammocks, LLC ever have a formal vote of its
15 members to decide to go into bankruptcy?

16 A No.

17 Q Who made the decision to take it into bankruptcy
18 then?

19 A All of us. All the members.

20 Q Was it a unanimous agreement?

21 A Yes.

22 Q When did that unanimous agreement take place? In
23 the September phone call?

24 A Right.

25 Q Now, Dr. Gray, there's a reference to the Lake

1 Norman Pavilion organization. I understand there's documents in
2 here that talk about ownership of Lake Norman Pavilion.

3 A Right.

4 Q And we'll get to those in a minute. But can you
5 tell me roughly when the Lake Norman Pavilion, LLC was created?

6 MR. PAYNE: Do you need to look at the documents?

7 A I would have to look at the documents. It's been a
8 long time.

9 MR. NELSON: Why don't we take a break while you do
10 that? It's 20 of 12:00. So why don't we take a break, we'll go
11 till about 12:30 and we'll take lunch. Okay.

12 (Discussion off the record.)

13 Q Dr. Gray, I was asking you to look for some
14 documents, did you find the documents?

15 A Yes.

16 Q What number?

17 A 3 -- 3015 is the articles of organization.

18 Q I'm sorry. 3---

19 A 3015.

20 Q Just give me a second to catch up with you, okay.

21 (Discussion off the record.)

22 Q Okay. So 3015. What was the reason for creating
23 the Lake Norman Pavilion, LLC, Dr. Gray?

24 A I was going to buy some land in Mooresville to
25 develop a retirement community.

1 Q Have you ever done any development of any kind?

2 A The retirement community.

3 Q So you did develop a retirement community? Where
4 was that?

5 A In Mooresville.

6 Q Is this related to Lake Norman Pavilion?

7 A Right.

8 Q I see a reference to the Village at Lake Norman and
9 I know you told me about producing those documents but if you'd
10 just tell me what that's about?

11 A The Village of Lake Norman was sort of the umbrella
12 entity that owned the assisted living. Lake Norman Pavilion
13 bought the land, rezoned it, got everything approved and done
14 and then informed the Village of Lake Norman along with those
15 other two guys that were partners for a while and they were
16 supposed to do the development because I'm really not a
17 developer. And then when they sued each other the judge kicked
18 them off the whole thing and we ended up owning it and I had to
19 finish the building and run it and do all the other development.

20 Q Can I take from your answer that all this took place
21 in Mooresville?

22 A Yes, it did.

23 Q And Lake Norman Pavilion took possession of whatever
24 residual there was from the Village at Lake Norman?

25 A It took possession of the Village at Lake Norman.

1 It didn't change the entity until it was dissolved.

2 Q But the assets of the Village of Lake Norman, became
3 the assets of Lake Norman Pavilion?

4 A Right.

5 Q Did you have to pay these other two gentlemen that
6 fought with each other something to get ownership interest?

7 A No. Because we owned it all to begin with. They
8 had put no money in it.

9 Q When you say "we," are we talking about the members
10 of the Lake Norman Pavilion?

11 A Lake Norman Pavilion.

12 Q So the members of the Village of Lake Norman were
13 you and your two sisters and then these other two gentlemen?

14 A Initially. Yes, initially.

15 Q Does the Village of Lake Norman, LLC still exist?

16 A No, it does not.

17 Q And all the property and all the assets in the
18 Village of Lake Norman, LLC became Lake Norman Pavilion, LLC.

19 A No, it was sold as the Village of Lake Norman. And
20 Lake Norman Pavilion was paid back money that it had put in to
21 do the development.

22 Q Was Lake Norman Pavilion by name part of the Village
23 of Lake Norman, LLC?

24 A Yes.

25 Q Okay. So this agreement says the Lake Norman

1 Pavilion, LLC is created the 10th October 1996, does that sound
2 accurate?

3 A Yes. It was filed on the 15th but I think it was
4 created slightly before that.

5 Q And at the time it was created there's really only
6 two people that have an ownership interest Virginia Love and
7 Mary Mullins. I'm looking at page 17, 3017.

8 A Right.

9 Q But you're listed as chief manager?

10 A Yes.

11 Q What were your responsibilities as chief manager?

12 A To put all the money in to do it and run it.

13 Q What do you mean put all the money in?

14 A All the money except for that contribution to
15 develop this project and buy the land came from me.

16 Q That's where it's a little unclear to me, Dr. Gray.
17 All the consideration to form Lake Norman Pavilion is reflected
18 as being Love and Mullins?

19 A That's right.

20 Q Where did your contribution come from?

21 A It's money I put in to buy the land and do the
22 development.

23 Q After this agreement was signed?

24 A Yes.

25 Q When was that?

1 A Pretty much at the same time.

2 Q Okay. So what's the second version of this
3 agreement that reflects---

4 A We did some amendment somewhere along the line that
5 designated the ownership of 49 percent mine, 49 percent my
6 sister's and 1 percent my other sister. Yeah. It says this
7 option here.

8 Q What page are you on?

9 A On 3056.

10 Q Hold on. Let me catch up with you. Okay. I
11 stopped you in the middle of your answer, Dr. Gray.

12 A I forgot what it was. But this was an option that
13 we signed that basically conveyed 49 1/2 percent of Lake Norman
14 Pavilion to myself.

15 Q Well, this gives you as I read this the option to
16 purchase 49 1/2 percent?

17 A Right.

18 Q But when did you become invested in Lake Norman
19 Pavilion?

20 A At that time as far as I know.

21 Q So you pursued this option?

22 A Yes.

23 Q And is there a document that reflects you---

24 A I don't know. This is all I have.

25 Q You have no document that reflects you now own part

1 of Lake Norman Pavillion?

2 A No, other than tax return filings.

3 Q How much did you contribute?

4 A Several million dollars.

5 Q Do you know how much that is?

6 A No but I paid it back.

7 Q What do you mean you paid it back?

8 A When we sold the Village of Lake Norman I paid
9 myself back a good part of what I put in.

10 Q Okay. I'm a little confused.

11 A I loaned the money to this entity and then when we
12 sold the Village of Lake Norman I paid some of that back and
13 then some of it I had loans rolled into what we gave the
14 Michels.

15 Q Okay. So around this time October of 1996 you
16 gave---

17 A We bought some land for \$1,000,000.

18 Q Where did you buy the land?

19 A In Mooresville.

20 Q Okay. And did you develop that land?

21 A Yes, part of it.

22 Q And is that what became the Village of Lake Norman?

23 A Some of it, yes.

24 Q And then some that remained---

25 A Some of it we sold off to other entities to shopping

1 centers.

2 Q Is it raw land?

3 A Raw land. Zoned but raw land.

4 Q When you purchased it was it raw land?

5 A Yes.

6 Q How many acres?

7 A Put together the number of parcels it was about 72
8 acres, I think.

9 Q So you develop some of it, you sold some Of it off?

10 A Right.

11 Q And then you eventually sold what you developed?

12 A Yes. We still owned some.

13 Q And you still owned some acres?

14 A Yes.

15 Q How many acres do you own?

16 A Sixteen or 18 something like that.

17 Q And are those held by Lake Norman Pavilion right
18 now?

19 A Yes.

20 Q So in addition to Lake Norman Pavilion having some
21 ownership interest in The Hammocks, Lake Norman Pavilion also
22 owns some land?

23 A Yes.

24 Q And since Lake Norman Pavilion is part of The
25 Hammocks, LLC and The Hammocks, LLC actually has a land interest

1 that's held by Lake Norman Pavilion?

2 A No.

3 Q What part of that is incorrect?

4 A The Hammocks has no interest in anything the Lake
5 Norman Pavilion owns.

6 Q Okay. Lake Norman Pavilion has interest in The
7 Hammocks?

8 A In The Hammocks.

9 Q I had it backwards. How much money went into Lake
10 Norman Pavilion? And I think you told me you don't know but
11 let's make sure we get that answer. How much money did Lake
12 Norman Pavilion get from you?

13 A Over what period of time?

14 Q In total?

15 A I honestly don't know but it's in the numbers of
16 millions of dollars.

17 Q How many versions of the operating agreement are
18 there besides this original operating agreement for Lake Norman
19 Pavilion?

20 A I don't think there's any others.

21 Q But as far as you're concerned you own 49.5 percent
22 interest in Lake Norman Pavilion?

23 A Right.

24 Q I thought I saw a document that refers to your
25 splitting the ownership interest into class a and class b

1 ownership for Lake Norman Pavilion?

2 A I don't know.

3 Q You don't know anything about that?

4 A (Witness nods head no.)

5 MR. PAYNE: Answer aloud.

6 THE WITNESS: No, I don't.

7 Q You don't recall seeing any documents referred to a
8 retirement account of yours being somehow an asset or an
9 investment?

10 A No. I don't remember that. But some of the money
11 that we rely on was from a retirement account of mine. That may
12 have been something my sister prepared just to protect.

13 Q Is it possible that the Lake Norman Pavilion percent
14 of ownership is different than the financial interest of the
15 properties -- of Lake Norman Pavilion? I'm sorry. Not
16 properties. Do you want me to restate the question for you?

17 A In The Hammocks?

18 Q No. According to your own perspective you have a
19 49.5 percent ownership interest in Lake Norman Pavilion, is it
20 possible you have a greater financial interest than 49.5
21 percent?

22 A No. Not that I'm aware of.

23 Q By the way, there will probably be an accountant
24 coming in here who's going to sit through and make sure we
25 understand the financial aspects of all this and it will be

1 around 12:30. So when he gets here let's take a break so we can
2 start fresh with that.

3 Have you had any discussions with anybody from the
4 White Agency since the loss?

5 A Since who?

6 Q The loss, the fire?

7 A Your agency?

8 Q The White Agency?

9 MR. PAYNE: White in Black Mountain.

10 A No, I haven't.

11 Q Anybody on behalf of The Hammocks, LLC as far as you
12 know?

13 A I think the lawyer did and my secretary has talked
14 to them.

15 Q Who's your secretary?

16 A I mean not secretary, Sarah McCullough has talked to
17 them.

18 Q At the time of the fire who were the key employees
19 of The Hammocks, LLC?

20 A The people who worked at the inn.

21 Q Can you tell me by name?

22 A No, not totally. But Susie Zimmerman was our
23 manager, Sarah McCullough was the financial bookkeeper, Cedric
24 Finch was the maintenance, Sharon Olson was the dining room
25 manager, Perry -- I can't remember his last name.

1 Q Hendricks?

2 A Hendricks was the chef, Laura something or another
3 was the pastry chef. And then we had -- I don't know cause I
4 didn't handle much of the managerial. There were six or eight
5 concierges, reservation people.

6 Q Those are people you'd consider to be key employees?

7 A Yeah, they're all -- we had laid off all the people
8 that we didn't need to operate at that time.

9 Q Who did Susie Zimmerman report to?

10 A To me.

11 Q Who did Sarah McCullough report to?

12 A To me or to Susie. Mostly Susie.

13 Q Who did Cedric Finch report to?

14 A Everybody reported to Susie but me.

15 Q Cedric Finch reported to her?

16 A Yeah.

17 Q Sharon Olson reported to Zimmerman?

18 A Yeah.

19 Q Hendricks reported to Zimmerman?

20 A Right.

21 Q Laura reported to Zimmerman?

22 A Right.

23 Q And the concierges reported to Zimmerman?

24 A Right. But at the same time everybody was pretty
25 autonomous in taking care of their departments.

1 Q I understand there were periodic management
2 meetings?

3 A Yes, there were.

4 Q How often would they occur?

5 A Every couple of months we would have one. We had
6 not had any this year.

7 Q Would you attend those?

8 A Usually yes.

9 Q Was anybody in charge of running those meetings?

10 A I normally would have been.

11 Q Now, I understand there was a meeting a few days
12 after the fire with the management folks?

13 A Right.

14 Q Who ran that meeting?

15 A I did.

16 Q Any documents handed out?

17 A No.

18 Q Did anybody quit at that meeting or shortly
19 thereafter?

20 A Yes, they did.

21 Q Who is that?

22 A The two chefs quit -- well, everybody in the kitchen
23 and the dining room service quit.

24 Q When is the last time that you had a management
25 meeting?

1 A I don't know. I mean, I talk to Susie every day
2 that I'm up here.

3 Q But I'm talking about meetings where you bring the
4 management team together?

5 A She was the management team for the last three
6 months. Prior to that we had an assistant innkeeper and we
7 would meet at least once a month with her and Susie and myself.
8 Yeah.

9 Q I started off asking you about the different
10 accounting firms that had been used and we talked about the firm
11 that did the audit. Have you used any other accounting firms at
12 any point and when I say "you" meaning The Hammocks?

13 A Yes. When we first were trying to get refinancing
14 during the first year, we employed a firm to try to go through
15 the books and prepare a financial package for us to present to
16 the banks but they never finished it so.

17 Q Okay. Do you recall what the audit said or
18 concluded that was done by David Worley's company?

19 A That it was a failed business venture.

20 Q Did you provide a copy of that report to other
21 members of The Hammocks?

22 A Yes.

23 Q Did you provide a copy to Sloggart?

24 A Yes.

25 Q And Love?

1 A Right.

2 Q And Mullins?

3 A Not Mullins.

4 Q Does Mary Mullins know that she's a member of The
5 Hammocks?

6 A Yes, she does.

7 Q At the time the organization was first created was
8 Mary Mullins aware that she was listed having ownership
9 interest?

10 A Yes.

11 Q Were you surprised that the accountants came to the
12 conclusion when they did the audit that the business was a
13 failed business?

14 A Not at all. I knew that beforehand.

15 Q When did you know it?

16 A When I bought it.

17 Q So you knew when you bought the business was a
18 failing business?

19 A Right. We had to develop it to be successful.

20 Q Did you have any sense of how much of a failing
21 business it was when you purchased it?

22 A No because the innkeeper at the time had gone
23 through all their books and everything with me and showed how we
24 could save a lot of money and that, you know, we could break
25 even and make money if all these different things were done and

1 I believed him. Then basically it turned out everything he said
2 or told us was a lie.

3 Q Was that Robert Holland?

4 A Yes.

5 Q Did he ever generate a report for you that said we
6 can take these steps to reduce expenses?

7 A Yes, he did.

8 Q Do you know where that report is today?

9 A No. Some of it may be in the various lawyers'
10 offices that we've used to sue him.

11 Q So he basically put together a plan to reduce
12 expenses?

13 A Right. Reduce expenses, he could cut labor costs by
14 30 percent and increase revenue by 10 or 15 percent. That the
15 Michels used the inn to write off a lot of personal expenses
16 eliminate that. And he guaranteed us really that within the
17 first year we would have \$1 million profit to pay down on the
18 mortgage and to help with the refinance.

19 Q Was that million dollars in the plan?

20 A In the what?

21 Q Did he refer to that million dollar figure in the
22 plan?

23 A No, he did not.

24 Q So that representation that you'd have \$1 million
25 worth of profit if you did these things was not stated in the

1 plan?

2 A No, it was not.

3 Q Was there anything in the plan that said here's the
4 projection if you do these things?

5 A There was some. I don't really remember the details
6 of it. But certainly it wasn't \$1 million but it certainly
7 looked like we could at least break even which is what we wanted
8 to do until we had done the development and when we bought it we
9 had at least two years of reserves to support it.

10 Q When I hear that, Dr. Gray, what I'm hearing is that
11 you knew you were losing money and it was going to take you awhile
12 to turn it around and you had enough money in reserve to pick up
13 the shortfall?

14 A Right.

15 Q Do you know how much the reserve value was?

16 A I guess I had enough probably -- over \$1 million
17 that I could lend to the inn to keep it going.

18 Q Is that you personally?

19 A My pension plan.

20 Q So that million would have come out of your pension
21 plan?

22 A Yes.

23 Q Is that like a self-directed IRA?

24 A Right.

25 Q Do you still have \$1 million in your self-directed

1 IRA?

2 A No.

3 Q How much is in your self-directed IRA at this point?

4 A \$8,000.

5 Q How much was in there at the time of the fire?

6 A \$8,000. Or thereabouts. I don't know for sure.

7 Q Did you have any conversations with the Michels
8 about how much the shortfall would be when you purchased the
9 property?

10 A No. You know, they said they had never been able to
11 operate it for a profit except for one year. That they again
12 indicated that they really weren't doing as much hands-on
13 management that they felt with appropriate care you could cut
14 back expenses but they never really indicated how much.

15 Q I understand part of the plan was also to develop
16 the adjacent land?

17 A Right. That was the plan.

18 Q And I also understand that either The Hammocks or
19 entities that you have some relationship with have ownership in
20 11 parcels of land around the Richmond Hill Inn, does that sound
21 right?

22 A Yes and no. The inn is made up of multiple parcels
23 to begin with and then there's this extra land which is another
24 parcel and then there's another land that's part of the whole
25 thing too that's another parcel and then there were three